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UNCLAS SECTION 01 OF 07 TOKYO 001117

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COMMERCE FOR ITA DICKSON, LEE, AND NTIA HEINEMAN

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SENSITIVE

E.O. 12958: N/A  
TAGS: ETRD ECON JA ZO EAGR  
SUBJECT: U.S. Telecommunications Policy Delegation  
Meetings in Tokyo, October 16-18

SUMMARY

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¶11. (SBU) A USG delegation visited Tokyo October 16-18 for telecommunications policy consultations at the Ministry of Internal Affairs and Communications (MIC) and for meetings with U.S. and Japanese Telecom/ICT industry representatives. U.S. Coordinator for International Communications and Information Policy Ambassador David Gross led the delegation, which included FCC Chairman Kevin Martin, USDOC/NTIA Assistant Secretary for Communications and Information John Kneuer, FCC Deputy Chief of Staff Emily Willeford, FCC Acting International Bureau Chief John Giusti, Deputy Assistant USTR Jonathan McHale, Senior Advisor to USDOC Under Secretary for International Trade Alex Feldman, State/EB/CIP Director for East Asia/Pacific Communications and Information Policy Richard O'Brien, and USDOC/NTIA Telecom Policy Specialist Ashley Heineman.

¶12. (SBU) The delegation's half-day meeting with MIC focused on agenda items for the November ITU Plenipotentiary Conference and on other topics of mutual interest, including broadband deployment, growth of IP based applications, and mobile market competition. Both sides noted significant overlap in views on preventing mission creep at the ITU, with its associated budget increases and undesired forays into Internet governance. MIC explained its new Competition Program 2010, which, if it is as comprehensive as advertised, could solve a number of competition and market entry problems in Japan's telecom market. A luncheon reception hosted by MIC followed the consultations, with all of MIC's vice ministers in attendance, along with CEOs and senior officers from most of the major Japanese telecom operators and equipment manufacturers. The delegation also met with members of the U.S. Chamber of Commerce in Japan for an overview of Japan's commercial and economic environment and its implications for ICT industries. Additional meetings with NTT, Softbank, KDDI, NTT DoCoMo, and eAccess provided the delegation with perspectives on the Japanese market from the country's top telecom/ ICT companies. Embassy Tokyo Emin Hans Klemm, Econ Counselor Daniel Fantozzi, Econoff Nicholas Hill, and Econoff Marilyn Ereshefsky attended various meetings with the delegation. End Summary.

MIC CONSULTATIONS

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¶3. (SBU) PRELIMINARIES ----- The MIC meetings began with a courtesy call on Minister Suga. The Minister welcomed the delegation and expressed appreciation that key personalities in the USG's telecom policy team had traveled to Japan to meet with MIC. In congratulating the Minister on his recent appointment to the post in the new Japanese government, Amb. Gross noted the close working relationship they had already established while Suga was a Vice Minister. Chairman Martin and A/S Kneuer both noted the value in exchanging views on various approaches to telecom policy and regulation. Minister Suga expressed confidence in the continued U.S.-Japan telecom/ICT relationship, both bilaterally, and in multilateral fora such as the ITU. He expressed his hope that the United States would support Dr. Yuji Inoue, Japan's candidate for Director of the ITU's Telecommunications Standardization Bureau. Following the meeting with Minister Suga, the delegation joined the MIC team for a half day session of consultations on multilateral issues and topics of mutual bilateral interest. Participants on the MIC side included:

Hideo Shimizu, Vice Minister for Policy Coordination  
Hiroya Izumi, Director, Intl Affairs Dept.  
Masaaki Sakamaki, Director, Mobile Satellite Communications Div.  
Chono Hikaru, Director General, International Affairs Department  
Yasu Taniwaki, Director Tariff (Competition Policy)

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Division, Telecom Bureau

Highlights of the discussions as follows:

¶4. (SBU) ITU BUDGET ----- Amb. Gross noted that the United States is a strong supporter of the ITU but believes that the Union has not achieved all the possible efficiencies and economies that are possible, nor has it sufficiently prioritized its activities to maximize effective use of limited resources. The Union's management needs to do everything possible to achieve full efficiency and effectiveness in its delivery of activities related to its core competencies and mandate within existing resources. He said the U.S. view is that each Sector, with membership input, must reexamine its budget and programs to make sure that the activities in which it engages offer the maximum value to members and the most efficient use of its resources. For that reason, the United States has a policy of zero nominal growth and therefore believes that the contributory unit should be maintained at the current level of 318,000 Swiss francs.

¶5. (SBU) Regarding sector membership, Amb. Gross said that the United States also believes that the role of the sector members in the ITU is vital to helping the ITU retain its preeminent role in the telecommunications field. Raising the level of contributory unit for Sector Members would discourage participation and the important contributions that Sector Members make, particularly in the Radiocommunications and Standardization sectors.

¶6. (SBU) Amb. Gross pointed out that the ITU Council plays an extremely important role as the mechanism for member states to provide active oversight of the ITU's management and financial administration between Plenipotentiary conferences. He said the United States believes that it is absolutely essential for

member states to exercise this responsibility in order to maintain the integrity and reputation of ITU worldwide. He asked for support in adopting a balanced Financial Plan, linked to the Strategic Plan that will be adopted, that meets the Union's priorities while maintaining the level of contributory unit unchanged at 318,000 CHF per unit and the ratio of contributory unit for the Sector Members at one-fifth.

¶7. (SBU) The Japanese side also expressed great concerns with ITU budget, but was of the view that it was critical that contributions increase to address problem, perhaps by increasing both the number of sector members and their contributions. MIC noted that the Radiocommunication (ITU-R) and Standardization (ITU-T) sectors are pillar issues for the ITU and it does not want them to slow down work as result of a budget deficit. MIC said it is working on a proposal to prioritize issues. Japan's official stance is to work hard not to increase contributions and not burden sector members too much. Considering the situation, MIC believes some sort of increase is unavoidable because it is extremely important for the ITU to continue core functions. Personnel costs are increasing, which are necessary to conduct activities. As a first step, any contributory increases should be voluntary.

Amb. Gross noted that members need to be cautious whenever revamping cost structures and that it is still not clear why such a large portion of the budget goes toward personnel costs. MIC shared the U.S. view on this point, and stressed the need to focus on budget priorities with increases only as a last resort.

¶8. (SBU) ITU ELECTIONS ----- Amb. Gross said the United States considers the leadership of the ITU to be a critical issue for the Plenipotentiary Conference and is highly interested in potential candidates for the various leadership positions. He expressed the United States' highest regard for Japan's candidate

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for Director of the ITU's Telecommunications Standardization Bureau. He thanked Japan for putting a candidate forward, noting that the bureau would be well served if Dr. Inoue were elected, given his strong management skills. Amb. Gross promised that the United States would consider all candidates carefully, particularly with respect to their performance in the field as well as the positions and views expressed by their governments on a range of key policy issues. Regarding U.S. candidacies, Amb. Gross pointed out that the U.S. has held a seat on the ITU Council for many years and is a candidate for another four year term. In addition, the U.S. has held a seat on the Radio Regulations Board (RRB) as a representative of the Americas for the last eight years, and has a candidate for the seat, Ms Julie Zoller, whom we hope Japan will support. MIC said Japan would support the U.S. candidate and hope for U.S. support for Inoue.

¶9. (SBU) FUTURE OF THE ITU ----- Amb. Gross told MIC that the United States believes the current structure of the ITU is sound and provides sufficient flexibility to respond to the needs of the membership. At the same time, the ITU must continue to implement measures to improve the oversight and accountability of its functions. In the U.S. view, the ITU Council should play an important role as the mechanism for Member States to provide active oversight of the ITU's management and financial administration between Plenipotentiary Conferences.

¶10. (SBU) Amb. Gross said the ITU should collaborate with other relevant organizations to ensure that the growth in IP networking delivers maximum benefits to the global community and he referenced several U.S. submissions being made to the ITU on Resolution 101 (IP)-based networks; Resolution 102 on Management of Internet domain names and addresses; Resolution 133 on the Role of administrations of Member States in the management of internationalized (multilingual) domain names; and Resolution 130 regarding the Role of the ITU in information and communication network security.

¶11. (SBU) MIC replied that Japan also believes the current structure of the ITU should be maintained, but wants to avoid situations where too much power is given to one person or country. MIC is also concerned that under the current structure, it takes too long to reach decisions (in Council for example), making the ITU is ineffective in some ways. Amb. Gross agreed that the Council needs to become re-focused on policy issues, and that it needs to be supported by elected officials who can work together. He noted that Council would benefit from sub-groups to work on some issues such as finances.

¶12. (SBU) ICANN ----- A/S Kneuer provided an overview of the transition of the technical management of the Internet to the Internet Corporation for Assigned Names and Numbers (ICANN), and explained how the MOU has functioned as the vehicle for transition. A/S Kneuer also noted the public consultation conducted prior to the recently updated MOU known as the Joint Project Agreement (JPA) and he credited wide support of ICANN's management with its willingness to deal with concerns about transparency and accountability. He said his agency's role is to now make sure ICANN follows through and that it incorporates the views of its constituents -- including governments as it moves forward. He welcomed Japan's participation in the ICANN Government Advisory Committee, as well as on a bilateral basis with the USG. A/S Kneuer noted that ICANN will report on its progress twice annually, which should not be a simple reporting exercise but rather a mechanism for ensuring real progress.

¶13. (SBU) MIC replied that Japan likes the JPA and believes it will provide greater accountability and transparency. MIC called it a "perfect match" to their comments provided in the consultation process. MIC offered its support and continued assistance. MIC

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said it understood that the EU will be preparing an Internet governance proposal for ITU Plenipotentiary and questioned whether the U.S. has any thoughts on this.

¶14. (SBU) Amb. Gross replied that the USG has held discussions with the EU, but that we don't know for sure what they will do at Plenipot. In any case, the USG will hold firm that ITU should focus on infrastructure and security issues, believing that this fulfills WSIS obligations and will enhance cooperation.

¶15. (SBU) BROADBAND ----- Chairman Martin provided an overview of steps taken by the USG to facilitate continued broadband expansion. He said a key goal of the FCC is to ensure that no regulations exist to impede this growth and that the United States had seen progress in build-out over the past year.

¶16. (SBU) Mr. Taniwaki of MIC gave an overview of the current broadband market in Japan, noting the

gradual decline of DSL and increase of fiber, suggesting that fiber to the home may become mainstream in the near future. A drastic shift to broadband and a move from horizontal integration to vertical was noted as well as a resulting need for a new competition model to deal with such a shift. MIC presented its "New Competition Promotion Program 2010," MIC's roadmap for new telecom (including broadband) policies to be developed and implemented by 2010. Taniwaki said the goal is to strike a balance between facilities based and service based competition in order to maximize network capacity and services available to the public. He said MIC needs to encourage new technologies like WiMAX, and to get NTT to open up its next generation networks to competing services. He added that the transition to Internet protocol based services, including IPTV, is just one pillar of the 2010 policy review, but a very important one. The review also will examine Net Neutrality, more flexible dominant carrier regulations, and a regulator model such as the FCC-- i.e., a single, independent regulator for both telecom and broadcast. Taniwaki acknowledged that creating such a regulator would encounter difficult legislative hurdles.

17 . (SBU) Chairman Martin noted that MIC's 2010 program emphasizes the opening up NTT conduits, poles, etc., as well as fiber networks. He asked MIC how it intends to approach a policy on requiring NTT to open its local fiber for competition. Taniwaki replied that it was too early to say how this would be handled but in his views, competitors will access to NTT before they eventually build their own networks. Currently, there is no requirement for NTT or others to open up fiber but as an interim measure, it would be needed. He said MIC has asked local governments to develop specific plans for opening up government networks for use by local carriers.

¶18. (SBU) UNIVERSAL SERVICE ----- MIC reported that Japan's universal service fund will start operation this year. Amounts and contributions will depend on a carrier's subscription numbers. Only carriers with public switched networks will receive funding under current structure. MIC will set up a study group to look at universal service funding mechanisms and will have a recommendations and a decision by the end of next year.

¶19. (SBU) DIGITAL TV ----- Chairman Martin provided a U.S. DTV update. He noted that the U.S. standard is not suitable for use with personal mobile handsets. A/S Kneuer explained the U.S. voucher program for transitioning households to DTV, as well as public safety interoperability and advanced wireless components of the DTV transition process. Legislation makes NTIA responsible for administering a set top box assistance program for consumers with non DTV sets. He said that by early 2007, NTIA expects to have rules in place for issuing assistance coupons, well in advance of the required 2008 deadline.

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¶20. (SBU) MIC noted that 98% of households in Japan can receive DTV.

MEETING WITH AMCHAM

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¶21. (SBU) In a meeting with representatives of the U.S. Chamber of Commerce in Japan, delegation members briefed on their meeting with MIC and on their upcoming meetings in Beijing. AmCham members stressed that the USG must continue its economic engagement with Japan and express hopes for a reinvigorated

bilateral economic dialogue leading to an Economic Integration Agreement. Members suggested that given U.S. telecom companies' lack of success in Japan, it would take major reforms in the telecom sector to attract new interest. Whether Prime Minister Abe would move in that direction was unclear at such an early stage in his term of office. Amb. Gross underscored the USG's commitment to maintaining a high level of engagement with Japan across the entire range of our relationship.

#### MEETINGS WITH JAPANESE ICT COMPANIES

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¶22. (SBU) Thanks to excellent advance work by Embassy Tokyo, the USG delegation met with the CEOs and senior executives of Japan's top telecom and ICT companies. In discussions with NTT, Softbank, NTT DoCoMo, KDDI, and eAccess the common theme on the Japanese side was bringing broadband (fixed and mobile) to all of their customers and moving into deployment of fourth generation mobile services that would converge the fixed and mobile networks. At DoCoMo and KDDI showrooms, the delegation saw demonstrations of mobile phone television and other cutting edge applications now making their way into the Japanese market. The delegation was particularly impressed by Softbank's presentation on technology that permits hi-quality video applications (movies, games, etc.) to run over standard copper wires to customers' residences.

¶23. (SBU) NTT MEETING ----- The USG delegation met during the afternoon of Oct. 16 with NTT President and CEO Norio Wada and his most senior executive staff. Discussions focused on challenges NTT faces in rolling out fourth generation mobile services while trying to manage fixed-to-mobile convergence in an uncertain regulatory environment. The meeting underscored the similarity of questions facing regulators and incumbents in both our countries. The meeting, which lasted for well over an hour, was also notable for NTT including virtually its entire senior management team.

¶24. (SBU) During the meeting, NTT officials noted that they are seeing declining market share in fiber to the home due to competition with utilities. To stay on top of the market, NTT will begin next generation network (NGN) trials for its employees in December 2006, and will expand to its regular customer base in 2007.

¶25. (SBU) NTT frustration at not being permitted to benefit from the efficiencies of sharing DoCoMo services with NTT West & East. NTT also noted that there needs to be incentives for sharing of network facilities, which in the company's view, applies to the network neutrality issue of burdening the carrier with the cost of the network while the content providers ride for free.

Amb. Gross questioned NTT on what they hope to accomplish by moving to NGN. NTT response was that they hope to achieve cost reductions, integration, and new services. NTT said they are experiencing a "hollowing out" in the public switched network and that traffic is shifting to IP. Chairman Martin enquired into NTT's experience with fixed-mobile convergence (FMC). NTT replied that it is frustrated

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here, too, because while they are prevented from offering FMC services - even a simplified bill - KDDI can.

¶26. (SBU) SOFTBANK MEETING ----- At Softbank, the delegation was treated to a demo of new on-line home entertainment services and a discussion of the company's market strategy conducted by Masayoshi Son, founder and CEO. Son stated that Softbank is the first telecom company in the world to be totally IP based and because of this, has not had to wait to employ ITU NGN standards recommendations (Softbank uses Cisco routers and other existing IT solutions). One hundred percent of Softbank's broadband subscribers are using VoIP, which has no charge for domestic calls, \$.02 per minute for international calls, uses regular handsets, and according to Son, consistently has the same quality as calls on the public switched network. Son spent a significant amount of time explaining its technology that permits hi-quality video applications to run over standard copper wires to customers' residences, and very little time discussing mobile services. Son claims that running copper on the last loop only, at distances up to 1km, he can deliver 30MB service to a customer, but that the majority of his applications need as little as 4MB, with 8MB providing satisfactory capacity to nearly any private consumer. He stated repeatedly that he could accomplish comparable performance levels in the United States, even with unconditioned wire and with the longer drop loops in the United States compared with Japan.

¶27. (SBU) Son expressed concern over the danger of re-monopolization by NTT as it moves from copper to fiber. For its fixed network operations, Softbank is completely dependent on the copper in the last mile, and under current rules, NTT can remove copper from customer premises with four year notice to customer, whether or not the customer agrees. Son suggested that the competition issues created by this situation should be of interest to the USG. The U.S. delegation made no reply to that point.

¶28. (SBU) NTT DoCoMo MEETING ----- CEO Masao Nakamura chaired the meeting, which included senior officers of the company. DoCoMo envisions that it will phase out 2G services in the near future and will stop the sale of 2G handsets to spur this transition. DoCoMo predicts customers will not mind, since they already replace handsets every 28 months at a price of approximately 60,000 Yen (about \$500). The company says customers will also reap the benefits of more efficient network management on 3G. For example, 3G service is less expensive for data than 2G. DoCoMo has begun the transition already and its flat rate Imode package is available on a 3G network but not 2G. The company hopes to get more spectrum from MIC under a special allocation program as an incentive for growing its 3G business. Its current 3G (800 Mhz) space is close to capacity. Asked about recent announcements that it would be launching Blackberry in Japan, DoCoMo said that it would initially be pitched purely for "business" use. DoCoMo officials noted that they were preparing to deal with the launch of local number portability, scheduled to start October ¶24. Under the new rules, customers can port phone numbers for a nominal fee, but not their email addresses served by the mobile provider. Given the popularity of email addresses tied to mobile providers, many expect a great reluctance by customers to switch mobile phone companies.

¶29. (SBU) KDDI MEETING ----- Hosted by Vice Chairman Sadanori Amano and President/CEO Tadashi Onodera, the discussion focused on KDDI's bid to become the "ubiquitous solution company." KDDI is the sole provider of both mobile and fixed line services in Japan, if NTT and its DoCoMo subsidiary are considered as separate companies. KDDI's strategy is to offer triple play services on both of its platforms, and to continue to look for alternate fixed

line deliver opportunities, such as via fiber owned by

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the TEPCO power company and partnerships with cable television companies. KDDI has already launched 3G mobile services and is developing a next generation fixed and mobile integrated network. KDDI officials said this "Ultra 3G" will integrate both mobile and fixed access into the next generation infrastructure to offer a wide range of services in a seamless environment for the customer.

¶30. (SBU) EACCESS MEETING ----- According to eAccess founder, Chairman, and CEO Sachio Semmoto, the key to the company's survival against the incumbent NTT has been its ability to acquire the means to compete across several platforms and to implement innovative and cost effective solutions to technical challenges. Even so, the company is frequently on the defensive. Roaming agreements, which will be very important to attract new customers, are still not achieved. eAccess sees NTT as the only viable roaming partner as KDDI is on a CDMA system and eAccess uses GSM. The company does not think the other GSM operator, Softbank, has sufficient coverage. So far, negotiations with NTT have not met with much success.

¶31. (SBU) As an example of the "nimble and out-of-the-box" thinking that has allowed eAccess to gain a foothold in Japan, Semmoto showed the USG group an Internet protocol residential distribution hub specially built for the company by the Chinese firm Huawei. Weighing less than 100 lbs. it replaces a rooftop unit weighing nearly two tons. Asked whether the company had tried sourcing from the USA, eAccess said it contacted U.S. vendors, but only Huawei was able to meet the specifications at the right price point.

¶32. (SBU) This cable has been cleared by the Washington agencies concerned. The single, comprehensive cable is at Washington's request.

SCHIEFFER